

EXECUTIVE SECRETARIAT
ROUTING SLIP

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SUSPENSE

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Remarks

cc: oea

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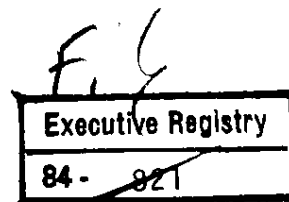
Meeting canceled.
Executive Secretary
2/14/84
Date

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OFFICE OF THE SECRETARY OF THE TREASURY
WASHINGTON, D.C. 20220

February 14, 1984



DDT- 01082/84

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(With ~~Confidential~~ Attachment)

MEMORANDUM FOR OVP
STATE
DEFENSE
INTERIOR
AGRICULTURE
COMMERCE
TRANSPORTATION
ENERGY
OMB
✓ CIA
USTR
OPD
NSC
CEA
OCA

- MR. PHILIP HUGHES
- MR. CHARLES HILL
- COL. JOHN STANFORD
- MR. BARRY ALLBRIGHT
- MR. RAYMOND LETT
- MRS. HELEN ROBBINS
- MR. LOGAN SALLADA
- MR. WILLIAM VITALE
- MR. ALTON G. KEEL
-
- MR. DENNIS WHITFIELD
- MR. EUGENE MC ALLISTER
- MR. ROBERT KIMMITT
- MR. WILLIAM A. NISKANEN
- MR. THOMAS GIBSON

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Subject Interagency Group on International Economic
Policy (IG-IEP)

Acting Assistant Secretary Hoguet will chair a meeting of the IG-IEP on Wednesday, February 15. The IG will review an amendment to the Export Administration Act dealing with potential exports of Alaskan oil proposed by Senators Murkowski and Stevens. The objective will be to determine the viewpoint of various agencies on the amendment, weigh the options contained in the attached paper drafted by Treasury, and narrow recommendations for SIG-IEP consideration.

The meeting will be held at 4:30 p.m., in Room 4121, of the Main Treasury Building. Attendance will be principal plus one.

Christopher Hicks
Executive Secretary and
Special Assistant to the Secretary



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ALASKAN OIL EXPORTS

I. ISSUE:

The Administration must decide its position on an amendment to the Export Administration Act (EAA) sponsored by Senators Murkowski and Stevens (both R-Alaska) to allow export of Alaskan oil. The decision depends mainly on judgments regarding the amendment's effect on passage of the EAA, its economic impact, and its policy implications.

II. ANALYSIS:

A. Summary of the Amendment (Full text attached)

Designed to meet concerns which killed previous efforts in Congress to end the oil export prohibition, the amendment:

- requires oil exports be carried by vessels built and documented in the United States,
- limits exports to 200,000 barrels per day and authorizes the President to terminate export contracts if US supplies are "interrupted, threatened or diminished," and
- permits exports only to countries which have made substantial progress in removing trade barriers to US exports.

If successful, the amendment would permit the export (probably to the Far East, primarily Japan) of about one-eighth of present Alaskan North Slope production. This production now is shipped on US vessels (required by the Jones Act) to the US West or Gulf Coasts. The exported oil likely would be replaced barrel-for-barrel with imported oil--probably from Mexico and Venezuela.

The Japanese and other potential buyers are apparently unwilling to pay any premium for Alaskan oil above the world market price for competitive crudes. Similarly, Alaskan oil producers would be unwilling to sell oil to foreign buyers at a lower profit margin than realized on current sales to domestic buyers. Since the current domestic sales price for Alaskan crude is competitively determined, export sales could be expected if the shipping costs on the mandated US flag carriers are less than, or equal to, present costs for shipping the crude to US ports on Jones Act tankers. Allowing these exports would tend to increase West Coast petroleum prices and to reduce by about one-eighth the number of US vessels presently assured employment in the US intracoastal oil trade by the Jones Act. This trade now involves approximately 80 ships, with 4,800 crewmen.

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The amendment's requirement to export in US vessels is to overcome previous maritime interest opposition to export of Alaskan crude on non-US bottoms. The cap on exports and the power to terminate contracts are to assuage those concerned about increasing US dependency on imported oil. The requirement that the country buying the oil reduce barriers to US exports is to meet concerns of those who think we should exact a price from Japan for giving it access to US oil.

B. Previous Administration Position

The SIG and CCCT have both considered export of Alaskan oil (in May and October 1983, respectively). They decided that, although lifting the export ban made economic sense, there was no point in getting the President out in front on this issue because there was no chance of Congressional approval.

Since then the situation has changed:

a). EAA extension has become a major legislative priority but has run into problems on the Hill;

b). The proposal now includes the requirement to use US vessels, limits the amount of oil that can be exported (whether from existing or new fields), and contains the trade condition.

The SIG must decide its position taking these new factors into account.

C. Legislative Aspects

1. Effect on Passage of EAA. Differences on how to balance national security and export interests made it impossible to pass a new EAA last year. The present law was extended until February 29, 1984, to provide time for the House, Senate, and Administration to agree on a bill. The House has passed its bill. The Senate will take up the bill soon, perhaps as early as February 23. The Senate bill will differ from the House's, requiring resolution of several contentious issues in conference. This will be difficult, as Senators Garn and Heinz have indicated a reluctance to compromise on the Senate EAA bill.

Maritime interests blocked previous attempts to export Alaskan oil. They are now considering their position on the Murkowski-Stevens compromise; the press reports they oppose it. Their judgment is based on weighing: (a) the benefits (to them) of carrying US oil exports in US ships and the value of the precedent of 100 percent cargo preference for a segment of US commercial exports; versus (b) the costs in terms of loss in ships, crews, and port handling now involved in the Alaska-lower-48-state trade.

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Even if maritime interests decide to support the amendment, there will be opposition from those who fear increasing US dependence on imported oil, and those who do not want to do Japan any favors.

It appears that currently the only strong Congressional supporters of the proposal are the Alaska Senators. Inclusion of the amendment might slow action on EAA by inserting a new controversial element. At worst, it could conceivably block passage of the EAA.

2. Other Laws. There are no other laws which would prevent the export of Alaskan crude once the EAA has been modified to permit such exports.

D. Economic Impact

The analysis for the earlier SIG meetings concluded that the economic benefits of allowing Alaskan oil exports are long-term. In the near-term, income transfer effects dominate as a result of eliminating the inefficiencies in current transportation patterns. The potential savings from substituting lower-cost export transportation for high-cost coastal tankers would result in higher profits for the oil companies producing Alaskan oil, increased Federal tax and lease revenues (perhaps partially offset by increased Federal expenditures for the Maritime industry) and additional Alaskan oil royalties.

The potential long-term benefits claimed by its advocates are an increase in Alaskan and US West Coast oil production spurred by higher well-head prices for producers; higher lease fees for Federal and State governments; more economically efficient employment patterns; relief from burdensome future capital investments in uneconomic Jones Act coastal tankers; and investment obtained from Japan in exchange for access to our oil. Another presumed benefit would be any trade concessions Japan might grant in exchange for access to Alaskan oil.

The small scale of exports authorized and associated constraints in the proposed amendment reduce the potential economic benefits from oil export de-control in a trade-off reducing losses to US maritime interests. The value to Japan--and thus our ability to obtain Japanese concessions--is mitigated to some extent by the cap, the ship-American provision, and the power to terminate export contracts.

E. Policy Implications

National Security. The Department of Defense has argued that a benefit of the forced use of US flag tankers in the current trade is that about 40 to 50 of the tankers are militarily useful (those less than 80,000 tons, coated for clean product trade).

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If they were not engaged in the trade, they might have to be purchased for the National Defense Fleet. Large tankers, the type that would be expected to carry Alaskan oil exports, cannot fill the military need met by small tankers. Permitting unlimited export of Alaskan oil could displace the militarily useful small tankers, but the 200,000 barrels per day limitation (one-eighth of current Alaskan production) would make it unlikely that those tankers would be displaced.

Oil Security. Permitting export of a small amount of crude on an interruptible basis in addition to presently authorized exports of refined products would be unlikely to exacerbate US vulnerability to oil supply disruptions. Moreover, under the International Energy Agency agreement the United States is obligated to share its energy supply (both domestic and foreign) in case of a serious emergency (supply disruption of seven percent or more), whether or not their export is permitted now. As obligations under the IEA agreement are calculated on the basis of net petroleum imports, passage of the amendment would neither decrease nor increase US vulnerability.

Trade Policy. In principle, offering Japan access to our oil would benefit Japan by permitting it to diversify its sources of supply. Removing the export prohibition is also consistent with our free market objective for trade policy. The conditions on the access (200,000 bpd, US bottoms, interruptibility of contracts) limits the benefit to Japan. There is some doubt whether Japan would make major trade concessions in exchange for the conditioned access to Alaskan oil.

Cargo Preference. The major policy implication of the bill is the imposition of 100 percent cargo preference on US commercial exports. US cargo preferences are now required for USG cargoes and USG-financed exports. Half of Exim, PL 480, AID, and CCC financed goods have to be shipped on US vessels although waivers are permitted. Maritime interests have long sought cargo preference on US commercial trade. The Administration has opposed expansion of cargo preferences (most recently, bilateral cargo sharing arrangements) because it is a protectionist measure (complete protection for a US service) and it would decrease the competitiveness of US exports. Accepting 100 percent cargo preference for oil exports would be a major departure from that policy and could set a dangerous precedent.

III. OPTIONS

The principal options on the Murkowski-Stevens amendment are:

- strong support, including lobbying;
- support in principle, but no Administration effort to help on the Hill;

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- no objection if amendment does not delay
favorable action on EAA;
- no position;
- opposition in principle, but no objection if
it passes;
- strong opposition.

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AMENDMENT TO EXPORT ADMINISTRATION ACT

- () Referred to the Committee on -----
and ordered to be printed
- () Ordered to lie on the table and to be printed

INTENDED to be proposed by Mr. Murkowski-----

Viz:

1 On page 39, strike out line 13, and insert in lieu thereof the
2 following:

3 1979 is amended--

4 (1) by striking out paragraphs (2) (A) (ii) and (2) (A) (iii)
5 of subsection (d) and inserting in lieu thereof the following:

6 "(ii) that the President may permit the export of
7 an amount not to exceed 200,000 barrels per day subject
8 to the other requirements of this subsection;";

9 "(iii) will be made only pursuant to contracts which
10 may be terminated if the President finds that the crude
11 oil supplies of the United States are interrupted, threatened,
12 or diminished;";

13 (2) by striking out paragraph (2) (A) (iv);

14 (3) by striking out "and" at the end of paragraph (2) (A) (v);

15 (4) by inserting after paragraph (2) (A) (v) the following:

16 "(vi) will occur on vessels built and documented in
17 the United States with all maintenance and
18 major repairs on such vessels occurring in U.S. repair
19 facilities;

20 "(vii) will not impair the ability of the United States
21 maritime fleet to transport or be able to transport the
22 amount of crude oil necessary to meet national security

- 2 -

1 and military needs;

2 "(viii) will provide substantial increases in Federal
3 revenues,

4 "(ix) will be made only on or after January 1, 1985;

5 "(x) will be made only to countries which have made
6 substantial progress in removing trade barriers to United
7 States imports;

8 "(xi) will encourage increased domestic oil exploration
9 and development; and

10 "(xii) will enhance the international trading position
11 of the United States."

12 (5) by striking out paragraph (2) (B) of subsection (d);

13 and

14 (6) by striking out subsection (j).

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